RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Nov. 8, 1995 **LETTER 1186**

Oct. 27 DJIA 4741.75; PTI 4290; A-D Ratio -4.40
Nov. 3 DJIA 4825.57; PTI 4314; A-D Ratio -3.80
Dow Yield: 2.41%; Dow Price/Earnings: 14.7
Dow 200-day MA: 4429; Dow 30-day MA: 4767
Dow Times Book Value: 3.69; PTI 89-day MA: 4248
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 385.40; Gold-PTI: 596

THE PICTURE: The picture, as I emphasized in the last Letter, is one of **divergences.** As seen on the page 6 chart in the last Letter, the D-J Industrial Average was putting on a solo performance -- even while the sub-structure of the stock market was deteriorating.

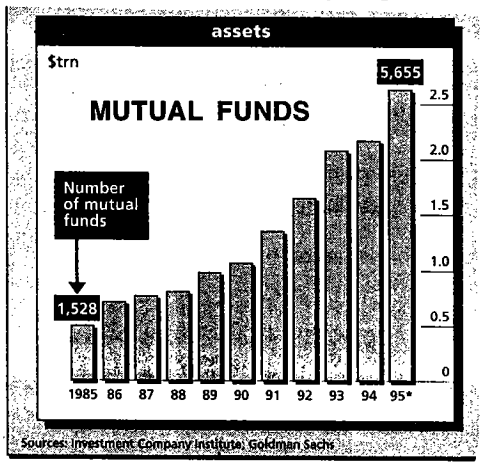
When I say the sub-structure of the stock market I am referring to the *majority* of stocks on the NY Stock Exchange as exemplified by the advance-decline ratio. Note on the page 2 chart in this Letter that the A-D ratio topped out back on September 19; since then it has been in a downtrend (which means that more stocks are declining than advancing).

But the extraordinary item is the deterioration in the D-J Industrial Average itself. *The advance-decline line for the Dow topped out back on September 15,* even though the Dow itself recorded a new high as recently as October 19. What this divergence is telling us is that the *Dow strength is very narrow* and that it has been confined to fewer and fewer Dow stocks (see Late notes on page 6 for more on this).

Price action: Note on the page 1 chart that the Dow hit a record high of 4801.80 on September 14. A decline followed, then on October 19 the Dow rallied to a second record high of 4802.48. Another decline ensued, and on November 3 the Dow struck a third record high of 4808.59. The situation turned dramatic since this was the third new record high in the Dow contrasted with *three* lower peaks in the Dow's own A-D line (see page 6). Incredibly, on the November 3 record Dow high not a single one of the 30 Dow Industrial stocks recorded a new high. Amazing!

Daily New Lows (NYSE): Daily new (52-week) lows have started to expand. This represents a **change,** and it's a very important change. For months new lows held *below* 25 per day. More recently the daily new lows (NYSE) moved up sharply to the above-70 a day level. Then, on October 26, for the first time this year, the high-low equation reversed and we saw 66 new highs and 111 new lows.

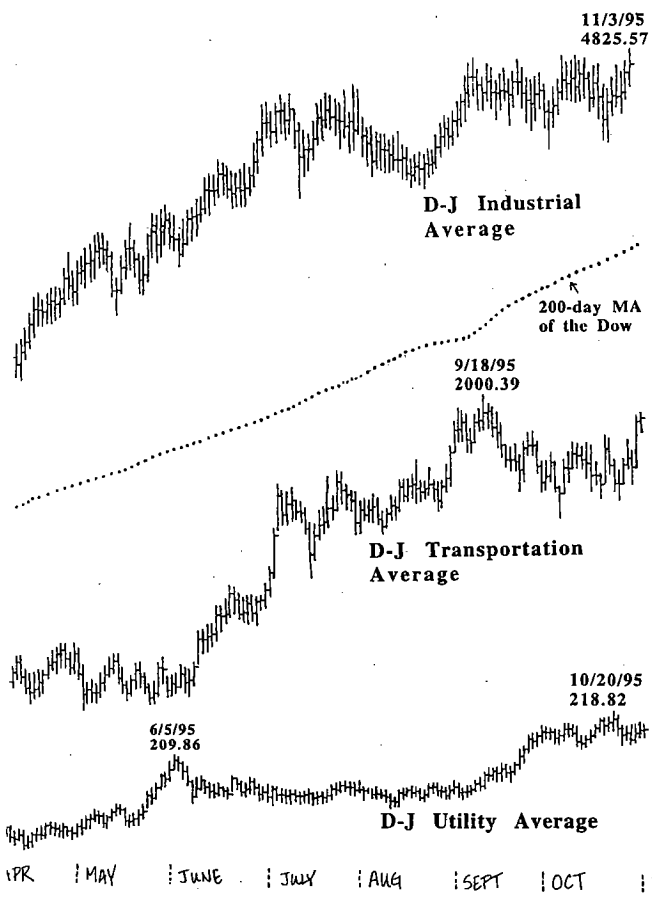
When new lows start to pepper the list, it's more than just a technical indication -- it means that investors are *beginning to lose money in selected areas.* A rising number of new lows implies increasing selling pressure -- and losses. Therefore, I watch the high-low list with interest. The real danger signal -- when the daily total of new lows rises above the daily total of new highs -- and stays there, day after day.

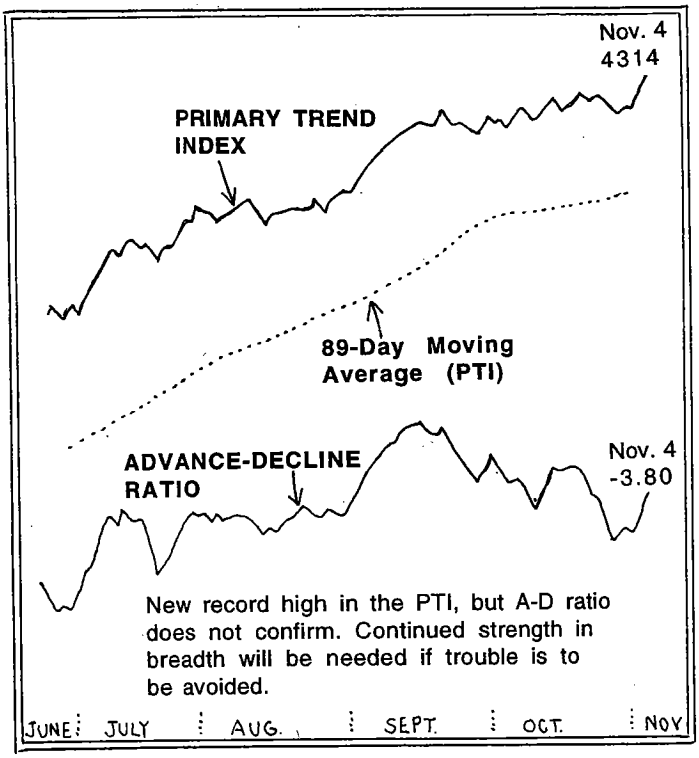


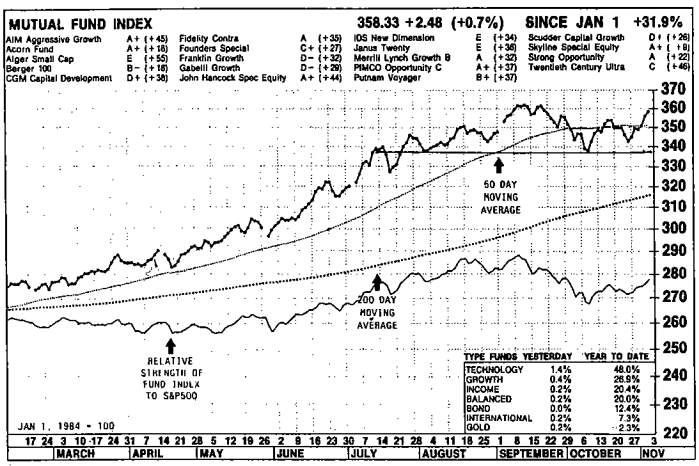
CRITICAL CHART: Subscribers know that I've said all along that the "Achilles Heel" of this market is the vast (really nutty) and dangerous number of mutual funds. Fact -- in 1985 there were 1,500 funds worth $500 million; today there are 5,600 funds worth $2.6 trillion. For this reason, I want to direct attention to what may be the single most important chart in the industry. I'm referring to *Investor's Business Daily's* chart of 19 leading growth mutual funds. They call it the Mutual Fund Index (see chart, page 2).

The **Mutual Fund Index** is a good proxy for where the public's money is. Referring to the chart, you can see that all through the year the funds headed higher and obviously, the public was thrilled. Money continued to pour into the funds at a staggering rate. The inflow to equity funds averaged around $2.5 million a week. Much of it is automatically invested in the funds via 401(k)s or savings plans or even via automatic deductions from salaries.

Notes Daniel Kadlec in his Nov. 1 *USA Today* column: "Fund companies, the big ones anyway, are so flushed with cash today







that they don't need to market their products. The money just washes in like a tide. That's complacency."

Note that the Mutual Fund Index has traced out a "complex head-and-shoulders top" type of pattern. If or when this Index sinks to 330 or below, such a break would suggest that the majority of funds have topped out. If that happens, and I emphasize IF, I expect real trouble and mounting losses for fund holders.

I've expounded at length on the implications of a primary bear market and an extended declining trend in the mass of mutual funds. That's the point where the public would begin to face its Baptism of Fire. That's the point where the millions of Americans who own funds would find that their assets are moving into the loss column. And when faced with a decline in assets, I would expect the already debt-ridden public to pull back sharply on its buying.

PRIMARY TREND INDEX (PTI): Despite the divergence in price and breadth, despite the market's extreme overvaluation, despite year after year going by without a correction, my PTI continues to trend higher -- into new high ground. Older subscribers can attest to the accuracy of the PTI over the last 25 years. The fact is that the PTI has been an amazingly "correct" indicator of the market's direction. Personally, I won't believe that this market's in major trouble until I see the PTI roll over in a decisive downtrend. That hasn't happened.

The question might be asked, "Why couldn't the market just crash one day -- even while the PTI was in new high territory?" My answer is that anything's possible where the market is concerned, but I would think that the PTI would show some indication, some hint of weakness, near or at the point where this market was ready to collapse. So far -- no hints from the PTI.

DEFLATION: In the last Letter (page 6) I wrote about governments everywhere *down-sizing* as they struggle to deal with their chronic debt and deficit problems. Dealing with deficits entails cutting back on many of the ramifications of the welfare state. The whole down-sizing phenomenon presents a background for deflation and unemployment. And the statistics bear this out. Check these unemployment figures: Belgium unemployment -- 14.8%; Denmark -- 10.3%; Spain -- 22.7%; France -- 11.4%; Italy -- 11.6%; Germany -- 9.3%. Japanese and Mexican unemployment are both at a record highs.

But what about the Fed? Wouldn't the Fed fight deflation tooth and nail? Well, you would think so, but I have a theory about this. It has to do with Alan Greenspan. Greenspan *was* a hard-core, died-in-the-wool gold man in his younger days. Greenspan even wrote tomes to the great moral and economic advantage of a gold-based monetary system.

But now Greenspan is head of the paper-printing, inflation-creating Fed and my guess is that he feels that the Fed "should be" as anti-inflation as the gold system used to be (are we seeing Greenspan's guilt at forsaking gold?). At any rate, Greenspan would like to go down in history as the Fed Chairman who brought US inflation down to zero, a feat that the Fed has never been able to accomplish. But to achieve Greenspan's goal, in view of today's sky high debt levels, the Fed must push the nation towards zero-inflation or even deflation. It's a fascinating and puzzling picture.

Remember, I said that in view of this nation's massive total public and private debts (over $17 billion) the US has a choice -- "inflate or die." By the way, as this is written we are not inflating.

INVESTMENT POSITION: The bull remains in the box. And from all sides we continue to hear that modern "today" chorus -- *"Buy good stocks and hold them into your old age. You'll retire rich."*

The only problem with that thesis is that the breadth of the market (i.e., the advance-decline ratio) may be topping out. If so, there'll be an unpleasant "interval" between now and the time the average US investor will be retiring rich.

In order for a diversified portfolio to make money, it's generally necessary for market breadth to keep climbing. If breadth turns down on a trend basis, it means that the "gravy train" has been derailed. That may be in the process of happening now. But it will take more time before we can know with certainty -- one way or the other.

In the meantime, caution is warranted. My Primary Trend Index (PTI) has not yet rendered a bear signal (by breaking below its 89-day moving average). Actually, it has not even slipped into a decisive downtrend. But as I said, this is a time for caution. The market is on very thin ice.

NEW WORLD A'COMING: Talk about flux, talk about "the new world," talk about change, consider the following: today the banking world is thrilled with its mega-mergers. But you have to wonder, what's the future of banking in the coming world of computers?

Today thousands of branch banks dot every town and city in the nation. Those branches represent billions of dollars worth of real estate. But in the future who'll need them? In the future you'll be doing most of your banking from a computer in your bedroom, and as my wife, Faye, said, "The only reason we use the bank now is

to occasionally pick up cash, and for that they don't need a five-thousand square foot branch bank in an expensive section of town." So what happens when Microsoft and Prodigy and Netscape go into banking? What happens if banking becomes simply another function of software (which I think it will)? What will the bank stocks be worth in the future?

Then we have the Internet. Some forward thinkers are of the opinion that before too long the Internet will take over for all the on-line services, and in time literally all news, all facts, all knowledge will sift into the Internet. When that happens, what will happen to the newspapers, the book business, the entertainment business, the sports business, the advertising business, yes, even the newsletter business?

Won't there be a dozen, no, a hundred companies all competing for "easy access" to the Internet? Look at the price of Netscape (over 80) with its easy access to the Internet. Some wags said when Netscape's stock hit the market that Netscape would be the next Microsoft. Ridiculous? I'm not so sure that Bill Gates is laughing.

As populations grow (grow geometrically, by the way), as cities become more choked-up and impenetrable, as traveling becomes even more impossible, it will become easier and far pleasanter to live away from the crowds. As the danger of living in the cities increases -- there will be a growing desire to live far from the cities and even away from the suburbs. And it will all be possible via the computer (with the probable addition of satellite TV and that amazing little 16" dish).

Side-note: my 14-year old Kloss projection TV finally gave out. I loved that set, and I was crestfallen when it gave up the ghost. But overcoming my panic, I went out and bought a Mitsubishi 70" rear-projection TV. The new set is terrific, the quality is great, the picture is huge. Question: who needs to go to the movies for $14 a clip when I can rent a video for $1.98, project it on my big screen and see it when I want to, not when the theater wants me to.

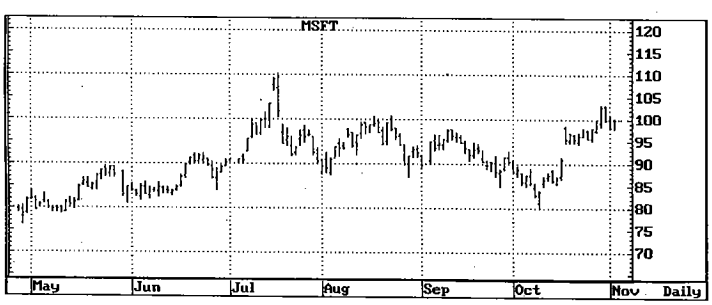
BELLWETHERS: It's always nice and convenient to have a bellwether stock. When I first started Dow Theory Letters in the late '50s US Steel was considered the bellwether. ("As steel goes, so goes the country.") Later in the '60s the bellwether was General Motors. ("What's good for GM is good for the country.") During the '70s and '80s it was DuPont and probably IBM.

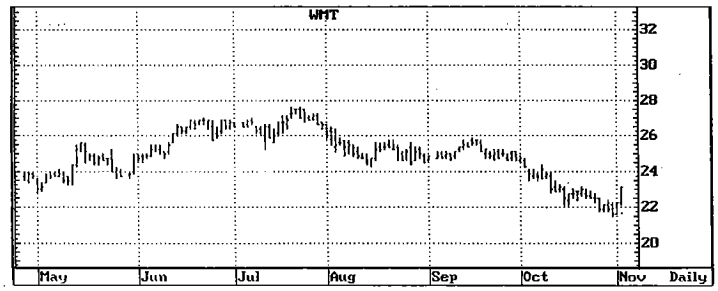
Today there are a few key stocks I watch. They are Merrill Lynch for finance, Walmart for retail and Microsoft for high-tech. The charts of all three appear below. MSFT is pushing into resistance at 100, after ostensibly topping out at 110.

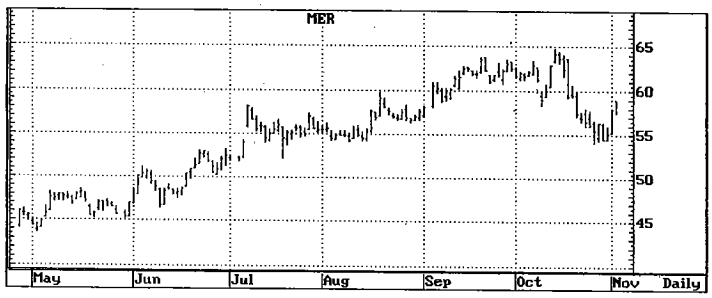
Walmart has been in a downtrend since July, and this corresponds to the current sluggish retail sales and the fact that the consumer is "tapped out."

Merrill appears to have topped out at just under 65, and it remains to be seen whether MER can hit a new high, even as the Dow struggles to better its October record high.

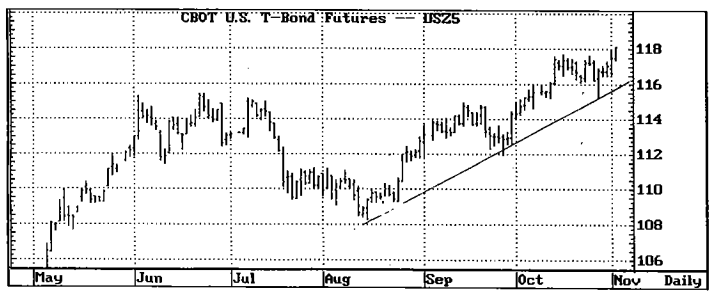
Conclusion: It's surprising how many good stocks are struggling. None of the three bellwether stocks above are at new highs.



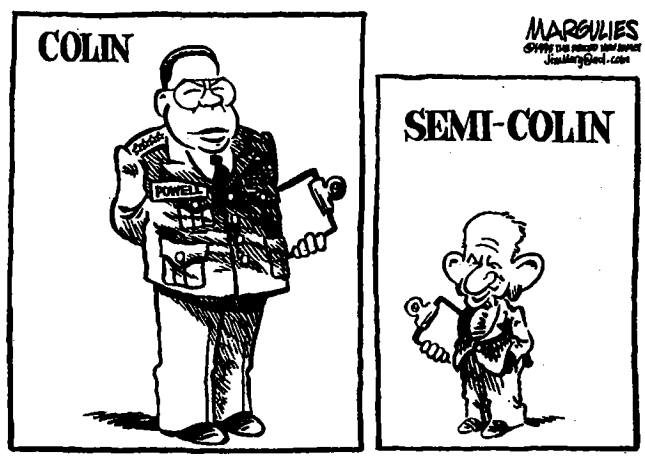




Bonds: I want to add bonds to the list. Below is a daily chart of the December bond contract. What's to say? A new high above 118. What does it mean? The obvious is that business is slowing down, consumer spending is slowing down, and the pressure (if the economy slows) will be on the Fed to lower interest rates. With an election coming up and Mr. Greenspan up for another term as Fed Chairman, the Fed will be mightly tempted to lower rates another notch.



NOTES & QUOTES: Colin Powell: He'll decide whether to run in November. A widening Republican perception is that Dole can't beat Clinton, but Powell can. However, a possible Powell candidacy has set off a furious debate among GOP hopefuls. Party strategists are afraid that GOP projected changes may be too drastic for the average American, and that Powell would be more "toned down," more middle-ground. But there's plenty of dissension. For instance, leading social conservative Paul Weyrich paints Powell as "the ultimate insider" and a creature of the Washington establishment. He adds, "If you liked George Bush, you will love Colin Powell. Like Bush, Powell stands for very little and believes in very little, except that he would enjoy sitting in the big chair. The ongoing conservative revolution in this country is a revolution against the Colin Powells of this world." **Russell opinion:** Despite his wife's wishes, Powell will run. He enjoys his



popularity, and senses weakness in the other GOP candidates. Powell feels if nothing else he could be a great healer in racial relations and a role model for the nation's blacks. Problem for conservative Republicans -- Powell is pro-choice and could prove to be far too liberal.

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Want some publicity? Make a goofy, unprovable prediction and call it in to your local paper, as noted below. Hey, I want some publicity too -- so write this down and post it on your bulletin board. **DOW 31,000 BY 2006!** Tell 'em Russell said so.

INVESTOR'S CORNER

Bonnel's Rosy Outlook: Dow 20,000 By 2007

By Leo Fasciocco
Investor's Business Daily

Some investors shiver at the thought of what might lie 10 or 15 years ahead. Not Arthur J. Bonnel. The manager of the $25 million Bonnel Growth

Boston conference. "That's where the real money is. Trying to buy if the Dow slips back to 4600 is like trying to buy a stock that's going to 20 at 4½, instead of 4¾. There isn't much difference."

Bonnel strongly believes that stocks will outperform bonds and that bonds will do better than certificates of deposit. He cites demographics: 76 million

"A person can make more money with patience that with brilliance," he said. "Almost anyone who's made big money did it long-term in stocks or real estate.

"The true genius in investing is recognizing the direction of the long term trend. It's not trying to pick tops and bottoms. That's attractive and

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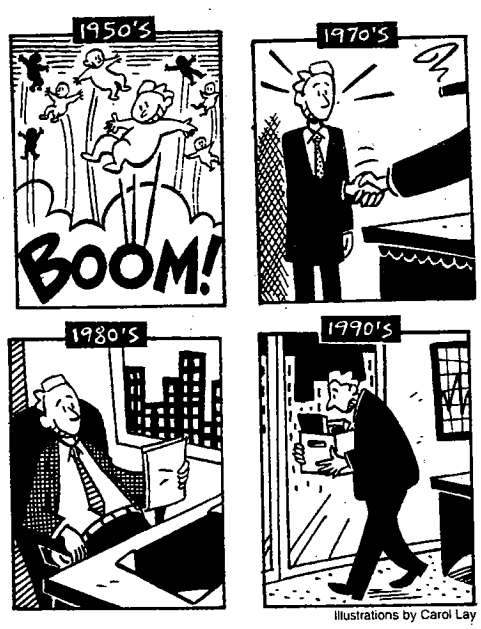
ZOOM: Consumers are up to their necks (or really their eyeballs) in **debt.** Credit card spending has been rising at roughly a 20% rate since 1992. Credit card debt increased 13% during the first eight months of 1995, while incomes grew at only a 3% rate. MasterCard and Visa holders carried an average of $1,828 in June, up from $1,750 at the end of 1994. It's wild, it's crazy, it's American. How to explain it? One explanation is that hundreds of thousands of people who have lost their jobs or taken jobs for less money are borrowing to keep up their standard of living. Another rationale is just plain optimism. This kind of wild optimism often occurs near the end of a century.

It many be cruel, but this cartoon from the *WSJ* might be labeled, "A short history of the boom babies." Sign of the times: one-third of American men 55 to 65 are now unemployed.



Illustrations by Carol Lay

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Thousands of acres of forest disappear daily, rivers and even oceans become polluted, animal and plant species become extinct weekly, cities choke with smog, the earth's temperature actually warms. What's going on? It's the booming, geometrically increasing world population. The actual facts: the population of the planet earth is increasing by 200,000 people a day, almost 88 million a year. Gad, 88 million, that's eleven cities the size of NYC every year. Can this go on? I don't know. Certain scientists say that the world has an absolute population limit of 12 billion. Personally, I hope we never, ever see that number; it's far too many people.

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A few months ago the IRS announced that it planned a line-by-line audit of 153,000 "randomly chosen individuals and businesses." This would be one of the toughest of all IRS audits, the "Taxpayers Compliance Measurements Program" referred to by taxpayers as the "audit from hell." I wrote at the time that with the possible coming of the flat tax or the national sales tax, both of which would vastly reduce or even eliminate the IRS, how in the world could the IRS be so arrogant or stupid as to institute a new program from hell? And sure enough, on October 23 the IRS announced that "due to budget cuts" the random audits program had been called off. Ah yes, remember that old biological truth -- the first instinct of any organism is self-preservation. It even applies to government agencies.

Budget Crunch Forces IRS to Cancel Random Audits

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Strapped by a tight budget, the Internal Revenue Service is canceling a planned line-by-line audit of the tax returns of 153,000 randomly chosen individuals and businesses.

Frank Keith, the IRS chief of media relations, said in an interview Monday.

But the latest version of the audits, scheduled to begin in December, with agents examining 1994 returns for as long as 30 months, will not be carried out, Keith said.

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Smoking may be decreasing in the US (actually, it's increasing among teen-agers), but the cigarette companies have a vast new market -- Asia. A new report (written by doctors from the Shanghai Medical University) out of China states that 67% of Chinese men smoke cigarettes. Furthermore, the report notes that the Chinese spend "17% of household income to buy cigarettes." Meanwhile, an article by the American Medical Association states that lung cancer rates for the entire population of China were increasing by the horrendous rate of 4.5% a year and that lung cancer could kill 900,000 Chinese a year by 2025.

Heart attacks are the number one killer of American men, so if you get nothing else out of these Letters, the following might be of value to you. I stopped smoking in 1970, and the truth -- I regret that I ever took a single puff. I am of the opinion that smokers are in denial, much as men who go to war are. The unspoken thought -- the other guy will get killed (or in the current case die from lung cancer), "but not me. I'm blessed." Yeah, right. Four days after I stopped smoking I had a heart attack. My doctor told me "Russell, you should have stopped smoking four years ago, not four days ago." As you may have surmised, I survived.

But my arteries became clogged. It got to the point where I could hardly walk a block without feeling chest pains. My doctor told me, "Russell, you have a choice, be an invalid on heart drugs or have a bypass." So I had a quintuple bypass operation, and I'll let you in on a secret, it was no fun. But it worked. Within two months I was jogging. Ten years passed. Then, two years ago I had a sudden pain in my chest, and I rushed to the hospital. One of the grafts (from my bypass) had become clogged. A "stent" (courtesy of Medtronics) was inserted via angioplasty to keep the graft open. A stent is a tiny metal spiral which serves to hold open the artery (see front page article in the October 23 *WSJ* on stents).

By that time I was getting a bit tired of invasive surgery, even though it had undoubtedly saved my life. By the way, prior to bypass surgery I could hardly walk across the street. Now I can go half an hour on the treadmill or stairmaster (believe me, bypass changes your life for the better). But I had another problem -- angina or a clutching pain in my chest which would last a few minutes. To relieve the pain, I would pop a nitrostat, a pill which opens up the veins, capillaries and arteries. But angina is no fun either. So I said to myself, there must be something other than surgery, something fundamental that might actually clean the plaque out of the circulatory system.

I had read about EDTA chelation, but never took it seriously. In desperation, I read a few books on chelation (try "Bypassing Bypass" available in most health stores). I was impressed. Chelation entails intravenous injections of EDTA solution. Each treatment takes about three hours. It may require 10 to even 30 treatments before any change is noted. I have literally hundreds of physician subscribers who read these Letters, and I know that

physicians are highly skeptical of chelation (even though few have read about it or have had any experience with it). Suffice it to say that so far I have had 50 treatments (I now take one a month). And to my great relief, my angina has about disappeared (or if it does occasionally appear, it is very mild). Could it be my imagination? Could chelation be simply a placebo (as many doctors claim)? Of course, anything is possible, but my instinct and my own experience tells me that chelation works. This is confirmed by conversations with many other chelation patients. For what it's worth, if you have "heart trouble" or vascular trouble you might look into EDTA chelation. But don't ask your doctor about it. Odds are that he'll simply spout negative hearsay or the usual AMA line.

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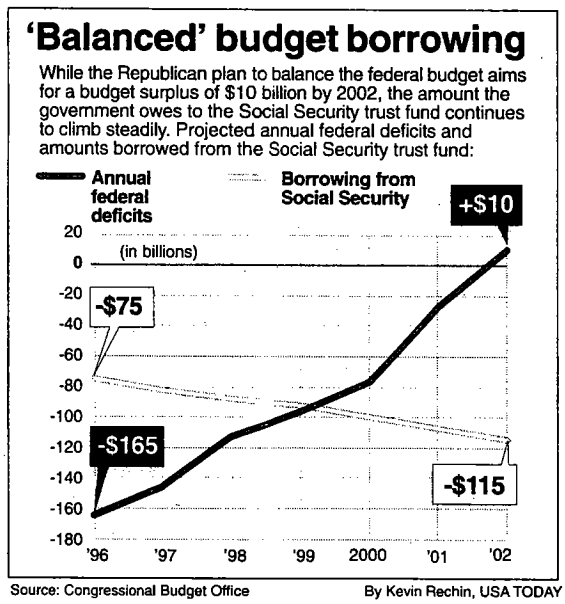
How 'bout that balanced budget by 2002? Well, it won't exactly be balanced. The fact is that by the Republican's own figuring, and even with the budget so-called in balance, there's that phony little item called the "off-budget." You see, by law, the Social Security trust fund is off-budget. The SS surplus (that's the amount left over after SS payroll taxes) is invested in T-bonds. That money is then grabbed by the federal treasury and is spent on everything from Senator's salaries to guns for the army. In other words, the government spends the SS surplus and leaves IOUs in the trust



fund. Thus, the government borrows the money, and this borrowing shows up as additions to the national debt.

If the proposed GOP budget is passed and then actually instituted, the deficits might disappear by 2002. Except for the fact that the government will be borrowing INCREASING amounts from the SS trust fund. This chart (from *USA Today*) shows the story. By 2002 the budget will show a $10 billion surplus, but at the same time borrowing from the SS trust fund will have increased to $115 billion. Says Senator Hollings (D-S.C.): "It's all political applesauce. When they say they're going to balance the budget, they know they aren't going to." **Russell Comment:** You have to wonder when, if ever, the government is going to get honest. Obviously, to actually balance the budget by 2002 the pols will have to cut a lot more out of spending or raise taxes even higher.

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Chips: Competing in the chip (microprocessor) world is not cheap. Intel will be building three new chip factories, but surprise -- they won't be built in the US. They will be built in Israel, Ireland and Malaysia. Cost: around $1.5 billion per factory. Previous Intel factories (and recent expansions) were in California, Arizona, Oregon and New Mexico.

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There's an old saying that seems to fit almost everything in today's world. It's an easy three-word epithet. It goes like this -- "Follow the money." How about in politics? Insiders say the saying works fine in politics. For instance, as far as collecting money is concerned, Dole is in the lead so far. Dole raised $5.6 million last quarter and has almost $7 million on hand. Conservative hero Pat Buchanan has moved into second place with Phil Gramm. Gramm has $2.2 million on hand. Surprisingly, Buchanan is the only GOP candidate whose funds have increased each quarter since the race began (Buchanan uses direct mail and lots of it).

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Has anyone noticed that despite all their complaining and whining, the Republicans have *not moved to reverse Clinton's massive tax boost* with its special "tax the rich" item. Will the Republicans try to institute the flat tax or the national sales tax? Will they put it in their platform as promised? Personally, I believe a promise to change the tax system would be the single strongest item on a Republican platform. (Question -- does the average American know what the Contract with America was all about?)

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Speaking of taxes, mull over the following: (1) Since 1954 Congress has changed the tax system, on average, every 1.3 years. (2) Since the last major overhaul in the tax system in 1986, there have been 4,000 changes in the tax code. (3) Today there are over 12,000 pages in the IRS tax rules. (4) Annually, US residents spend 5.4 billion hours preparing their taxes. (5) The IRS prints 8 billion pages of forms. (6) This last is fantastic -- the US government spends $159 billion a year, or 24% of the total tax revenue enforcing the tax code. **Russell opinion** of the above -- insanity.

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Where's the best place to locate your business (and your life)? *Fortune* magazine surveyed the situation and came up with the following US cities: (1) The best -- San Francisco and the Bay area; (2) Atlanta; (3) Denver; (4) New York; (5) Boston; (6) Seattle; (7) Austin; (8) Dallas/Ft. Worth; (9) Houston; (10) Phoenix. How about global cities? (1) The best -- Singapore; (2) San Francisco Bay Area; (3) London; (4) NYC; (5) Frankfurt; (6) Hong Kong; (7) Atlanta; (8) Toronto; (9) Paris; (10) Tokyo. But wait, the *Financial Times* reports that in a survey of senior executives from 500 European companies London came in first as the best city in which to locate a business (London has been voted first for the past five years). **Russell comment:** Aw, I vote for the world's best weather with a view of the Pacific ocean, so I'd vote for San Diego hands down.

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Following is from the *Donald R. Morris Newsletter* [(800)441-9837]. Don is an old high school buddy of mine; he spent 17 years with the CIA and knows what he's talking about. "That the U.N., which has come into its own since the collapse of Marxism, is in critical need of cash is well known; it's close to broke, and Sec. Gen. Boutros-Ghali has officially declared a near-bankruptcy -- the US alone owes it on the order of $1.4 billion, which, thanks to the prevailing climate in Washington, it is singularly unlikely to get. What isn't as well known is how the UN spends the money it does get, a process which is finally beginning to be looked at -- and what is emerging is one of the largest cans of worms ever uncovered . . . The huge, sprawling structure has peculiar personnel practices; the scores of thousands of staffers are supplied by the member nations, and while a majority are competent, dedicated officials (mired in a bureaucratic quagmire), many thousands are incompetent or worse. Some nations use the UN as a dumping ground for substandard civil servants; in many nations, influence, nepotism and bribery are rife. Once aboard, staffers are difficult to fire or even to evaluate -- they have cushy, well-paid life careers with all manner of perks, and a pension. Some do no work at all; others are alcoholics or drug abusers who don't even report to their offices. Efforts to unload them tend to be taken by their home government as insults." **Russell comment:** There's only one thing worse than a perpetual bureaucrat, it's a perpetual bureaucrat stationed away from home.

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Counterfeiting is proving to be a huge problem for the US and specifically for the Secret Service. Iran is evidently the culprit. Iran is using the intaglio process for printing. This entails the use of engraved metal plates, the same process used by the US Treasury, to print counterfeit hundred dollar bills. The bills are printed on bleached-out one dollar bills so the underlying paper (actually linen and cotton) is a perfect match with the real thing. The counterfeit hundreds are so good that even the sharpest eyes have trouble detecting the counterfeits from the real bills. Which is one of the reasons why the Treasury is introducing a series of newly designed

bills. So far, it is thought that Iran has printed over five billion dollars worth of the counterfeit so-called "super-notes." Many vendors in Europe and the Mideast now prefer money orders or travelers checks to the suspect hundred dollar bills.

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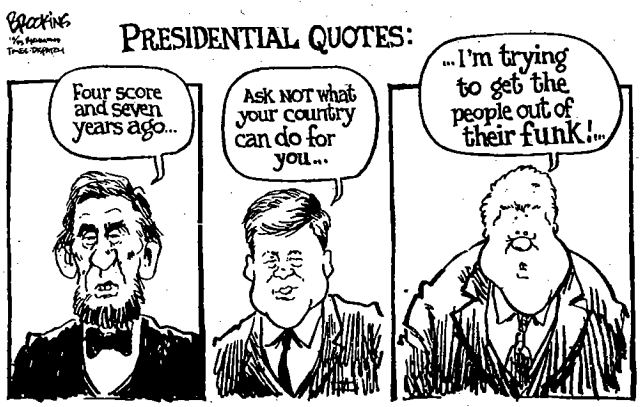
Ah c'mon, a laugh once in a while can't hurt.


PRESIDENTIAL QUOTES:
Four score and seven years ago...
Ask NOT what your country can do for you...
...I'm trying to get the people out of their funk!...

* *

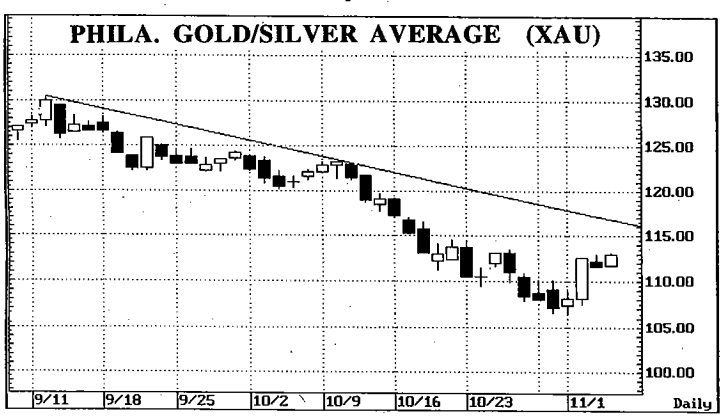
I've read about a lot of stealing, but Roh Tae Woo, former S. Korean president, is almost in a class by himself. I mean stealing big time. Last week he publicly apologized for stealing "at least $667 million" from various corporations.

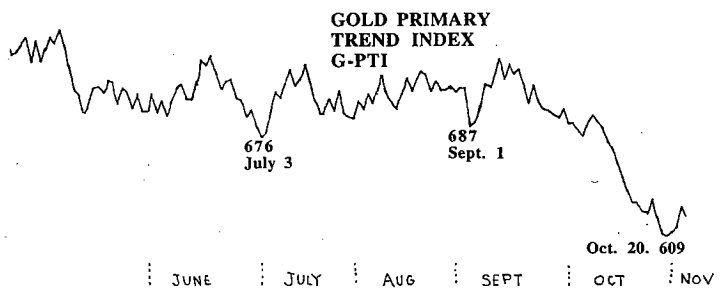
GOLD: Gold bulls are gloomy; gold (the metal) continues to do little or nothing -- and the gold stocks just keep drifting south. What does it all mean?

For one thing, gold volatility has been low, low, low, ridiculously low for over six months. How much longer can gold literally "do nothing"? My guess -- not too much longer. But the heck with my guesses, let's look at the charts.

This Japanese candle stick chart shows the latest decline in the XAU, the Gold/Silver Average. Each bar = one day; black bars denote down-days, white bars denote up-days. Note that since mid-October there have been a lot of black bars, actually an *excessive number*. Often a long string of down-day such as this one will end a decline.

But again, why guess? What gold bulls want here is a valid indication of a reversal. I would say that an XAU move above **116** would be extremely significant and could put XAU in position to attack the 125 area. Historically, it is of interest that when volatility is low (as it now is) the gold shares tend to lead the metal. We'll see.





As for my Gold-Primary Trend Index (G-PTI), I added a few good numbers last week, the best being a plus 21 on November 3. But overall, the trend continues down -- at least down until proved otherwise.

LATE NOTES: The current market is particularly interesting to me for three reasons: (1) The **Mexican peso** has moved past my "crisis level" of 7 to a new low of 7.4 pesos to the dollar. Keep your eye on Mexico. (2) The buying in the Internet-access stocks has escalated to the mega-mania level. For instance, last week **Netscape** (with 38 million shares outstanding) sold for 100, meaning that the market valued little NSCP at an incredible $3.8 billion. NSCP is also selling for 327 times its estimated '96 earnings of 30 cents. Grotesque. Russell prediction -- companies with Internet access and World Wide Web browsers will soon be a "dime a dozen."

(3) Occasionally, the market presents us with one of its little technical "problems." Here's the winning problem for 1995. The accompanying chart shows the chronic **divergence** which now exists between price and breadth. Here we see the Dow rallying to three successive record highs -- but each high is accompanied by **lower peaks** in both the Dow's own advance-decline line AND in the advance-decline ratio for the NYSE.

In the past this kind of action -- a series of three new Dow highs in the face of persistent breadth divergence -- has been the prescription for trouble. So that's where we are now (see chart). Important -- if both the Dow A-D and the NYSE A-D ratio can climb to new highs (a fairly rare occurrence), the dangerous divergence will have been cleared away, and the bulls will again receive an "all clear" signal.

As this is written, both the Dow and the Transports are pushing into new high territory, but the action is tentative and a bit shaky. If both Averages CLOSE at new highs it will be an obvious plus, even with breadth lagging badly. Previous highs were **4825.57** for the Dow, **2000.39** for the Transports.

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